

**KAPS**  
**ANNUAL REPORT**  
**1977**

# KAPS TRANSPORT LTD.

## ANNUAL REPORT MARCH 31, 1977

### DIRECTORS

P. J. A. Byrne .....	Edmonton, Alberta
Robert G. Graham .....	Winnipeg, Manitoba
Lorne C. Leitch .....	Edmonton, Alberta
James W. McCutcheon .....	Toronto, Ontario
George H. Montague .....	Toronto, Ontario
H. David Kapchinsky* .....	Edmonton, Alberta

### OFFICERS

Chairman of the Board .....	H. David Kapchinsky*
President .....	P. J. A. Byrne
Vice-President .....	George H. Montague
Vice-President, Transport .....	J. R. Burns
Vice-President, Marketing .....	Ralph Hayward
Vice-President, Finance, and Secretary/Treasurer .....	Timothy G. Wright

\*Resigned June 2, 1976

### REGISTERED OFFICES

9325 - 51st Avenue, Edmonton, Alberta

### EXECUTIVE OFFICES

9325 - 51st Avenue, Edmonton, Alberta

### TRANSFER AGENT AND REGISTRAR

Royal Trust Company, Edmonton, Vancouver,  
Winnipeg and Toronto

### STOCK EXCHANGE

Toronto Stock Exchange

### BANKERS

Bank of Montreal  
Mercantile Bank of Canada

### AUDITORS

Thorne Riddell & Co.,  
Edmonton, Alberta

### ANNUAL MEETING

September 29, 1977 at 9:30 a.m.  
Chateau Lacombe, Edmonton, Alberta

## FINANCIAL HIGHLIGHTS

	1977	1976	1975*	1974	1973					
	\$ Per Share	\$ Per Share	\$ Per Share	\$ Per Share	\$ Per Share					
Total revenue (note 1) . . . . .	\$16,618,000	\$6.48	\$23,532,000	\$9.18	\$30,818,000	\$12.02	\$25,048,000	\$9.78	\$21,864,000	\$8.55
Income (loss) from continuing operations . . . . .	(1,224,000)	(.48)	424,000	.17	(3,065,000)	(1.20)	(3,993,000)	(1.56)	1,412,000	.55
Income (loss) from discontinued operations . . . . .	(748,000)	(.29)	(1,847,000)	(.72)						
Income taxes — reduction (expense) . . . . .	643,000	.25	369,000	.14	551,000	.22	815,000	.32	(707,000)	(.27)
Income (loss) before extraordinary items . . . . .	(1,329,000)	(.52)	(1,054,000)	(.41)	(2,514,000)	(.98)	(3,178,000)	(1.24)	705,000	.28
Extraordinary income (loss) . . . . .	(203,000)	(.08)	(3,160,000)	(1.23)	(1,063,000)	(.42)	700,000	.27	372,000	.14
Net income (loss) . . . . .	\$ (1,532,000)	\$ (.60)	\$ (4,214,000)	\$ (1.64)	\$ (3,577,000)	\$ (1.40)	\$ (2,478,000)	\$ (.97)	\$ 1,077,000	\$ .42
Cash flow from operations . . . . .	\$ (293,000)	\$ (.11)	\$ 2,659,000	\$ 1.04	\$ (784,000)	\$ (.31)	\$ (1,559,000)	\$ (.61)	\$ 3,482,000	\$ 1.36
Shareholders' equity . . . . .	\$ 711,000	\$ .27	\$ 2,243,000	\$ .88	\$ 6,457,000	\$ 2.52	\$ 10,034,000	\$ 3.91	\$ 12,704,000	\$ 4.96
Working capital (deficiency) . . . . .	\$ (2,435,000)		\$ (2,060,000)		\$ (4,191,000)		\$ 162,000		\$ 1,155,000	
Total assets . . . . .	\$11,278,000		\$25,065,000		\$35,927,000		\$36,233,000		\$32,463,000	
Shares outstanding (note 2) . . . . .	2,563,265		2,563,265		2,563,265		2,557,109		2,563,265	

Note 1 — Restated to exclude revenue from discontinued operations for 1977 and 1976

Note 2 — Weighted average common shares outstanding for period

\* Nine Months

## REPORT TO SHAREHOLDERS

On behalf of the Board of Directors, I submit a report of the result of your Company's operations for the year ended March 31, 1977.

The major feature of the Company operations during the past year has been the completion of its programme of asset disposal and consolidation of operations enabling it to undertake the financial reorganization which is described in note 11 to the financial statements. With the successful completion of this refinancing the Company will be reasonably positioned to take advantage of opportunities in its areas of concentration.

### A. TRANSPORTATION

#### (1) LAND

In the 1976-77 fiscal year the Alaska subsidiary was profitable. The principal area of operations was serving the needs of the Alyeska Pipeline Project. Although the pipe haul was substantially completed during the previous year, the fiscal year 1976-77 saw more activity in general freight and equipment haulage. The rigmoving operations in Alaska were discontinued for economic reasons. Some of the equipment was disposed of locally and some transferred to Canada.

During the fiscal year the subsidiary diversified its operations by engaging in L.T.L. class of transportation and interlining freight to and from Canada and the United States.

Though it operated within its budget in the 1976-77 fiscal year, the Canadian Land Transport Division results were unprofitable. A reduced utilization of equipment was experienced during the winter and spring months due to weather conditions which restricted rigmoving activities, the division's major capability.

During the year the division was restructured and in order to optimize equipment utilization a planned expansion of the division's operating services was undertaken to include the haulage of heavy oilfield and construction equipment.

#### (2) MARINE

This division was sold during 1976. The Company operated the division up to the effective date of the sale, July 27, 1976. This resulted in an operating loss. The start up costs for the season were shared between the company and purchaser in the ratio of revenues earned.

### B. MANUFACTURING

The manufacturing subsidiary was not profitable during the 1976-77 fiscal year primarily because bid enquiries were low during the first half of the year, awards of proposed work were delayed, and the build up of labour in the shop was slower than anticipated due to local labour shortages.

In November 1976 Kaps Manufacturing Ltd. acquired the business and goodwill of Conoil Deka Industries Limited. This enabled the subsidiary to expand its expertise and capabilities into the design and fabrication of oil and gas field production equipment.

Through increased marketing and sales penetration and its ability to perform well, Kaps Manufacturing Ltd. is now a leading fabrication shop in western Canada.

## C. OTHER

Serving oil and gas field development for producers in remote areas of western and northern Canada is the main operation of Kaps Arctic Services Division. The division was profitable in the year in review and has since expanded its services. The division has the capability of performing all classes of earthmoving projects including site access roads, railway grade, earth filled dams, plant site preparation and sundry items of preliminary infrastructure for the extractive industries.

## GENERAL

Through the 1976-77 fiscal year, the efforts of management were almost solely directed to the reorganization and restructuring of the company subsequent to the successful achievement of the major disposals and discontinuance of the Marine and Construction divisions, Norcan Parts and Equipment (1965) Ltd., R.R. Dales Construction Co. Ltd. and the evacuation of equipment from Johnsons Point, Banks Island and Inuvik, N.W.T.

The object of the restructuring program of the company is the consolidation of its operating divisions and its head office administration. This objective has been substantially achieved. The company, which is now adequately and efficiently managed and staffed, is comprised of four major operating and service divisions, all geared to contribute to and share in the growth and development of the extractive and resource industries including any successful pipeline construction in northern and western Canada and the State of Alaska.

I would like to express my sincere thanks to all our employees whose diligence and loyalty has served the company so well during the past year, and who have made a great contribution to the successful carrying out of its reorganization.

P. J. A. BYRNE, PRESIDENT

AUGUST 29, 1977  
EDMONTON, ALBERTA

**KAPS TRANSPORT LTD.**  
 (Incorporated under the laws of Alberta)  
 and subsidiary companies

**CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1977**

ASSETS	1977	1976
<b>CURRENT ASSETS</b>		
Cash . . . . .	\$ 264,000	\$
Accounts receivable . . . . .	3,556,000	3,736,000
Inventories (note 2) . . . . .	946,000	2,100,000
Equipment held for sale . . . . .		2,077,000
Prepaid expenses and deposits . . . . .	455,000	493,000
	<u>5,221,000</u>	<u>8,406,000</u>
<b>INVESTMENTS</b>		
Joint ventures . . . . .	508,000	
50% Owned companies . . . . .	55,000	
Other . . . . .	<u>555,000</u>	
	<u>1,118,000</u>	
<b>FIXED ASSETS (note 3)</b>		
Land, buildings and equipment . . . . .	10,424,000	22,491,000
Less accumulated depreciation . . . . .	<u>5,032,000</u>	<u>7,999,000</u>
	<u>5,392,000</u>	<u>14,492,000</u>
<b>INTANGIBLES AND DEFERRED CHARGES</b>		
Excess of cost over fair value at dates		
of acquiring shares of subsidiary companies . . . . .	662,000	1,014,000
Other deferred charges . . . . .	<u>3,000</u>	<u>35,000</u>
	<u>665,000</u>	<u>1,049,000</u>
	<u><u>\$11,278,000</u></u>	<u><u>\$25,065,000</u></u>

Approved by the Board  
 P. J. A. Byrne, Director  
 G. H. Montague, Director

LIABILITIES	1977	1976
<b>CURRENT LIABILITIES</b>		
Bank advances (note 4) . . . . .	\$ 1,876,000	\$ 3,268,000
Accounts payable and accrued liabilities . . . . .	3,794,000	4,162,000
Income taxes . . . . .	73,000	32,000
Principal due within one year on long-term debt . . . . .	<u>1,913,000</u>	<u>3,004,000</u>
	<u>7,656,000</u>	<u>10,466,000</u>
<b>LONG-TERM DEBT (note 5)</b>		
Debentures . . . . .	1,707,000	8,846,000
Finance contracts . . . . .	1,382,000	3,677,000
Bank term loans . . . . .	742,000	
Mortgages and notes . . . . .	<u>531,000</u>	<u>531,000</u>
	<u>4,362,000</u>	<u>13,054,000</u>
Less principal included in current liabilities . . . . .	<u>1,913,000</u>	<u>3,004,000</u>
	<u>2,449,000</u>	<u>10,050,000</u>
<b>DEFERRED INCOME TAXES</b> . . . . .	<u>462,000</u>	<u>2,306,000</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK (note 6)</b>		
Authorized		
4,000,000 Common shares without par value		
Issued		
2,563,265 Common shares . . . . .	7,896,000	7,896,000
<b>DEFICIT</b> . . . . .	<u>7,185,000</u>	<u>5,653,000</u>
	<u>711,000</u>	<u>2,243,000</u>
	<u><u>\$11,278,000</u></u>	<u><u>\$25,065,000</u></u>

Subsequent events (note 11)

# KAPS TRANSPORT LTD.

and subsidiary companies

## CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED MARCH 31, 1977

	1977		1976 Restated (note 7)	
	Revenue	Gross Operating Profit	Revenue	Gross Operating Profit
Divisions				
Transport .....	\$14,251,000	\$ 1,490,000	\$20,059,000	\$ 3,119,000
Manufacturing .....	2,563,000	135,000	3,652,000	845,000
	16,814,000	1,625,000	23,711,000	3,964,000
Elimination of inter-division transactions .....	196,000		179,000	
	\$16,618,000	1,625,000	23,532,000	3,964,000
Administrative expenses .....		2,220,000		2,621,000
Interest on long-term debt .....		629,000		919,000
		2,849,000		3,540,000
Loss (income) from continuing operations .....		1,224,000		(424,000)
Loss from discontinued operations (note 7) .....		748,000		1,847,000
Loss before income taxes and extraordinary items .....		1,972,000		1,423,000
Income taxes (note 8)				
Current .....		273,000		
Deferred (reduction) .....		(916,000)		(369,000)
		(643,000)		(369,000)
Loss before extraordinary items .....		1,329,000		1,054,000
Extraordinary items (note 9) .....		203,000		3,160,000
<b>NET LOSS</b> .....	<b>\$ 1,532,000</b>		<b>\$ 4,214,000</b>	
Loss per share				
Loss before extraordinary items .....		\$ .52		\$ .41
Net loss .....		.60		1.64

# KAPS TRANSPORT LTD.

and subsidiary companies

## CONSOLIDATED STATEMENT OF DEFICIT YEAR ENDED MARCH 31, 1977

	<u>1977</u>	<u>1976</u>
<b>DEFICIT AT BEGINNING OF YEAR</b>	\$ 5,653,000	\$ 1,439,000
Net loss	<u>1,532,000</u>	<u>4,214,000</u>
<b>DEFICIT AT END OF YEAR</b>	<u>\$ 7,185,000</u>	<u>\$ 5,653,000</u>

## AUDITORS' REPORT

To the Shareholders of  
Kaps Transport Ltd.

We have examined the consolidated balance sheet of Kaps Transport Ltd. and subsidiary companies as at March 31, 1977 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta  
August 26, 1977

Thorne Riddell & Co.,  
Chartered Accountants

# KAPS TRANSPORT LTD.

and subsidiary companies

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED MARCH 31, 1977

	<u>1977</u>	<u>1976</u>
<b>WORKING CAPITAL DERIVED FROM</b>		
Operations . . . . .	\$	\$ 2,659,000
Decrease in investment in joint ventures . . . . .	508,000	88,000
Decrease in investment in 50% owned companies . . . . .	44,000	177,000
Proceeds from sale of fixed assets, net of additions . . . . .	6,883,000	441,000
Extraordinary credit on recovery of current income taxes of subsidiary . . . . .	232,000	
Reclassification of investments to current assets . . . . .	56,000	
Reclassification of equipment held for sale to current assets . . . . .	2,077,000	
Recovery of franchise fee . . . . .	50,000	
	<u>7,723,000</u>	<u>5,492,000</u>
<b>WORKING CAPITAL APPLIED TO</b>		
Operations . . . . .	293,000	
Reduction of long-term debt . . . . .	7,601,000	2,379,000
Writedown of current assets and costs of disposal of subsidiary companies and discontinued divisions . . . . .	204,000	927,000
Other investment . . . . .	55,000	
	<u>8,098,000</u>	<u>3,361,000</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL DEFICIENCY . . . . .</b>	375,000	(2,131,000)
<b>WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR . . . . .</b>	<u>2,060,000</u>	<u>4,191,000</u>
<b>WORKING CAPITAL DEFICIENCY AT END OF YEAR . . . . .</b>	<u>\$ 2,435,000</u>	<u>\$ 2,060,000</u>
Operations		
Loss before extraordinary items . . . . .	\$ (1,329,000)	\$ (1,054,000)
Items not involving working capital		
Depreciation and amortization . . . . .	1,931,000	3,603,000
Deferred income taxes . . . . .	(916,000)	(370,000)
Loss on disposal of fixed assets . . . . .	21,000	480,000
<b>WORKING CAPITAL DERIVED FROM (APPLIED TO) OPERATIONS . . . . .</b>	<u>\$ (293,000)</u>	<u>\$ 2,659,000</u>

# KAPS TRANSPORT LTD.

and subsidiary companies

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 1977

### 1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

#### (a) Basis of consolidation

These consolidated financial statements include the accounts of Kaps Transport Ltd. and its subsidiary companies, all of which are wholly-owned.

#### (b) Basis of recording revenue

Revenue is recorded principally as services are rendered or goods sold. In some cases certain companies in the group perform services for other companies. The resulting inter-company revenues and any gross profit therefrom have been eliminated in these consolidated financial statements.

#### (c) Inventories

Inventories are valued at the lower of cost and net realizable value.

#### (d) Fixed assets

All fixed assets are stated at cost. Depreciation is recorded in the accounts from the date of acquisition of the assets at rates and on the basis (set out in note 3) calculated to amortize the cost of the assets less residual value over their estimated useful life.

#### (e) Deferred charges

Deferred charges are amortized against earnings over the periods of benefit to the companies. The 1977 amortization amounted to \$22,000 (1976 \$255,000).

#### (f) Income taxes

Deferred income taxes arise from claiming certain expenses, principally depreciation of fixed assets, for income tax purposes in amounts differing from those recorded in the accounts.

### 2. INVENTORIES

Inventories consist of the following

	1977	1976
Parts and supplies . . . . .	\$ 707,000	\$ 1,714,000
Automotive and heavy equipment for sale . . . . .	129,000	
Work in process . . . . .	239,000	257,000
	<u>\$ 946,000</u>	<u>\$ 2,100,000</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. FIXED ASSETS

	1977		1976	
	Cost	Accumulated depreciation	Net	Net
Land . . . . .	\$ 249,000	\$	\$ 249,000	\$ 275,000
Buildings . . . . .	829,000	205,000	624,000	891,000
Automotive equipment . . . . .	7,636,000	3,952,000	3,684,000	6,213,000
Portable field equipment . . . . .	341,000	217,000	124,000	617,000
Marine equipment . . . . .				5,095,000
Office and shop equipment . . . . .	964,000	486,000	478,000	509,000
Roadways, docks and parking lot . . . . .	191,000	96,000	95,000	695,000
Leasehold improvements . . . . .	214,000	76,000	138,000	197,000
	<u>\$10,424,000</u>	<u>\$ 5,032,000</u>	<u>\$ 5,392,000</u>	<u>\$14,492,000</u>

Depreciation is provided on a straight-line basis at the following rates.

	<u>Percent</u>
Buildings, steel . . . . .	5
Automotive and portable field equipment . . . . .	10 - 33
Office equipment . . . . .	10 - 13
Shop equipment . . . . .	5 - 10
Roadways, docks and parking lot . . . . .	5
Leasehold improvements . . . . .	equal annual amounts over the life of the lease

### 4. BANK ADVANCES

Bank advances are secured by a general assignment of book debts, a fixed specific mortgage on certain equipment and floating charge debentures of the company and certain subsidiary companies. At March 31, 1977 the companies were in default under certain covenants contained in the floating charge debentures. As described in note 11, the bank financing is being restructured and on the completion of this, the companies will no longer be in default on the debentures and the major banker will continue the lines of credit.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 5. LONG-TERM DEBT

	<u>1977</u>	<u>1976</u>
(a) Debentures		
12½% Debenture. ....	\$ 1,185,000	\$ 8,252,000
Principal and interest are secured by		
(1) a first specific mortgage on fixed assets not otherwise pledged as security		
(2) a second specific charge on certain assets otherwise pledged		
(3) floating charges on all other assets and undertakings of the companies		
As at March 31, 1977 the companies were required to make monthly interest payments to August 1, 1977, at which time the details of the principal repayments were to be negotiated. Subsequent to the year end, the agreement more fully described in note 11 has been entered into, and the principal due within one year has been determined in accordance with the terms of this agreement. This agreement also states that on or before June 30, 1978 negotiations will be commenced to arrange mutually acceptable terms to repay the debenture by December 31, 1979.		
Bank debenture — subsidiary company. ....	522,000	594,000
Payable in monthly instalments of \$7,000 to \$10,000 with a final payment of \$232,000 on February 1, 1980; interest payable monthly at various rates related to the bank's prime lending rate; secured by a general assignment of accounts receivable, a first fixed specific mortgage on land, building and certain equipment and by a first floating charge on all assets.		
	<u>\$ 1,707,000</u>	<u>\$ 8,846,000</u>
(b) Finance Contracts		
Payments due in 1977. ....	\$ 2,297,000	
1978. ....	\$ 1,215,000	1,218,000
1979. ....	123,000	162,000
1980. ....	44,000	
	<u>\$ 1,382,000</u>	<u>\$ 3,677,000</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 5. LONG-TERM DEBT (continued)

	<u>1977</u>	<u>1976</u>
(c) Bank Term Loans		
Special term loan .....	\$ 450,000	
The agreement referred to in note 11 creates a term loan payable in blended monthly payments of \$25,000 commencing January 1, 1978. The said agreement states that on or before June 30, 1978 negotiations will be commenced to arrange mutually acceptable terms to repay this loan by December 31, 1979.		
Term loan — subsidiary companies .....	292,000	
The agreement referred to in note 11 creates a term loan due by 1981 payable in blended monthly payments of \$7,500 commencing September 1, 1977.		
	<u>\$ 742,000</u>	
(d) Mortgages		
Payable \$805 monthly including principal and interest .....	\$ 75,000	\$ 75,000
(e) Notes		
Payable in monthly installments of \$10,000 to \$26,000 until September, 1979; interest payable monthly at 12% .....	456,000	456,000
	<u>\$ 531,000</u>	<u>\$ 531,000</u>

### 6. CAPITAL STOCK

As at March 31, 1977, the company has reserved 100,000 common shares for issue under an option granted to the holder of the 12½% debenture. This option may be exercised in whole or in part at any time to April 25, 1980 at \$7.50 per share.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 7. DISCONTINUED OPERATIONS

The company ceased operations in its Earthmoving division and its Equipment servicing division in May, 1976; its Marine division in July, 1976 and various projects in its Arctic Services division by August, 1976. The operations related to the discontinued activities for the year ended March, 31, 1977 have been shown separately on the statement of income. The operations for the year ended March 31, 1976 are restated to show separately the results of operations of these discontinued divisions.

	<u>1977</u>	<u>1976</u>
Revenue		
Transport .....	\$ 1,210,000	\$ 6,167,000
Other .....	<u>183,000</u>	<u>3,895,000</u>
	<u>1,393,000</u>	<u>10,062,000</u>
Gross operating (profit) loss		
Transport .....	389,000	528,000
Other .....	<u>(84,000)</u>	<u>(340,000)</u>
	<u>305,000</u>	<u>188,000</u>
Administrative expenses .....	63,000	842,000
Interest on long-term debt .....	<u>380,000</u>	<u>817,000</u>
Loss from discontinued operations .....	<u>\$ 748,000</u>	<u>\$ 1,847,000</u>

### 8. INCOME TAXES

The tax effect of loss carry forwards is recognized only to the extent of eliminating cumulative income tax deferrals in each company.

Tax loss carry forwards available for application against future years' incomes but not recognized in the accounts total \$5,444,000 at March 31, 1977 (\$4,922,000 at March 31, 1976).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 9. EXTRAORDINARY ITEMS

	<u>1977</u>	<u>1976</u>
Reduction of current and deferred income taxes by application of prior years' losses.....	\$ (831,000)	\$ (54,000)
Write-off of excess of investments in 50% owned companies over proceeds upon liquidation during the year.....	11,000	
Write-off of the balance of the carrying value of 1,000,000 6% \$1 par value preferred shares received in 1974 from a purchaser as partial consideration for the sale of a subsidiary, the purchaser now being in receivership .....	500,000	578,000
Loss on sale of assets and business of Marine Division less deferred income tax reduction of \$213,000 related thereto.....	61,000	
Writedown of assets to estimated realizable value on discontinuance of the earthmoving division and portions of the arctic services division, less deferred income tax reduction of \$116,000 related thereto (1976 - \$112,000).....	126,000	1,754,000
Writedown of investment in subsidiary companies to realizable value .....	<u>336,000</u>	<u>882,000</u>
	<u><u>\$ 203,000</u></u>	<u><u>\$ 3,160,000</u></u>

### 10. OTHER FINANCIAL INFORMATION

#### (a) Depreciation

Depreciation deducted in arriving at gross operating profit amounted to \$1,863,000 (1976 \$3,348,000).

#### (b) Remuneration of directors and officers

Aggregate direct remuneration paid or payable by the companies to directors and officers amounted to \$210,000 (1976 \$270,000).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 11. SUBSEQUENT EVENTS

- (a) Subject to the approval of the Company's shareholders, the number of authorized common shares without par value is to be increased from 4,000,000 to 10,000,000.
- (b) The Company proposes to issue \$1,800,000 aggregate principal amount 10% convertible income debentures due November 1, 1982 secured as to principal only by a specific second charge against the land and buildings of Kaps Manufacturing Ltd., convertible into common shares of the Company at the price of 50c during the first two years and at 75c during the last three years of their term. It is proposed that the shareholders of the Company will be issued rights to purchase these debentures at par on the basis of \$1.00 of debenture for each two common shares held subject to a minimum subscription of \$500. The Company proposes to sell the balance of the debentures (approximately \$518,000 principal amount) to investors and to employees of the Company.
- (c) The Company has entered into agreements with its major banker and the 12½% debenture holder, subject to the subscription of \$1,000,000 of the aforementioned debentures. The agreement provides as follows:
  1. Except for the costs of issue, the proceeds to a maximum of \$1,400,000 will be applied, 4/7ths against the bank indebtedness, and 3/7ths against the 12½% debenture.
  2. The proceeds in excess of \$1,400,000, after satisfying the costs of issue, will be added to the working capital of the company.
  3. Repayments to the 12½% debenture holder will commence September 1, 1977 at \$7,500 per month principal, and from January 1, 1978 at a blended payment of \$25,000 per month.
  4. The Company's major banker will continue operating lines of credit in an amount more suited to the operations of the Company. A portion of the bank debt will be converted into the term loans referred to in note 5 (c). The repayment of these term loans will be as follows:
    - (i) By blended payments of \$7,500 per month commencing September 1, 1977 against a term loan of \$292,000.
    - (ii) By blended payments of \$25,000 per month commencing January 1, 1978 against a special term loan of \$450,000.
  5. The Company has agreed to commence negotiations on or before June 30, 1978 to arrange mutually acceptable terms to repay the 12½% debenture holder and the special term loan by December 31, 1979.
  6. Out of funds specifically set aside at March 31, 1977 for such purpose, the Company will pay \$250,000 to the 12½% debenture holder and \$50,000 to the major banker, to be applied to the special term loan.

The result of the aforementioned agreements, applied as at March 31, 1977, would affect the Balance Sheet as set out in the following Proforma.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

11. SUBSEQUENT EVENTS (continued)

**KAPS TRANSPORT LTD.**

(Incorporated under the laws of Alberta)  
and subsidiary companies

**PROFORMA CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1977**

ASSETS	PROFORMA	ACTUAL
<b>CURRENT ASSETS</b>		
Cash . . . . .	\$ 304,000	\$ 264,000
Accounts receivable . . . . .	3,556,000	3,556,000
Inventories . . . . .	946,000	946,000
Prepaid expenses and deposits . . . . .	<u>455,000</u>	<u>455,000</u>
	<u>5,261,000</u>	<u>5,221,000</u>
<b>FIXED ASSETS</b>		
Land, buildings and equipment . . . . .	10,424,000	10,424,000
Less accumulated depreciation . . . . .	<u>5,032,000</u>	<u>5,032,000</u>
	<u>5,392,000</u>	<u>5,392,000</u>
<b>INTANGIBLES AND DEFERRED CHARGES</b>		
Excess of cost over fair value at dates of		
acquiring shares of subsidiary companies . . . . .	662,000	662,000
Deferred financing costs . . . . .	60,000	
Other deferred charges . . . . .	<u>3,000</u>	<u>3,000</u>
	<u>725,000</u>	<u>665,000</u>
	<u><u>\$11,378,000</u></u>	<u><u>\$11,278,000</u></u>

**ON BASIS OF FULL SUBSCRIPTION OF INCOME DEBENTURES**

LIABILITIES	PROFORMA	ACTUAL
<b>CURRENT LIABILITIES</b>		
Bank advances . . . . .	\$ 1,076,000	\$ 1,876,000
Accounts payable and accrued liabilities . . . . .	3,794,000	3,794,000
Income taxes . . . . .	73,000	73,000
Principal due within one year on long-term debt . . . . .	<u>1,613,000</u>	<u>1,913,000</u>
	<u>6,556,000</u>	<u>7,656,000</u>
<b>LONG-TERM DEBT</b>		
Income debentures . . . . .	1,800,000	
Debentures . . . . .	857,000	1,707,000
Finance contracts . . . . .	1,382,000	1,382,000
Bank term loans . . . . .	692,000	742,000
Mortgages and notes . . . . .	<u>531,000</u>	<u>531,000</u>
	<u>5,262,000</u>	<u>4,362,000</u>
Less principal included in current liabilities . . . . .	<u>1,613,000</u>	<u>1,913,000</u>
	<u>3,649,000</u>	<u>2,449,000</u>
<b>DEFERRED INCOME TAXES</b> . . . . .	<u>462,000</u>	<u>462,000</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b>		
Authorized		
10,000,000 Common shares without par value		
Issued		
2,563,265 Common shares . . . . .	7,896,000	7,896,000
<b>DEFICIT</b> . . . . .	<u>7,185,000</u>	<u>7,185,000</u>
	<u>711,000</u>	<u>711,000</u>
	<u><u>\$11,378,000</u></u>	<u><u>\$11,278,000</u></u>

# **KAPS TRANSPORT LTD.**

**and active subsidiary companies**

Kaps Transport Ltd.

Kaps Transport Inc.

Kaps Transport (Alaska) Inc.

Kaps Manufacturing Limited

Inland Empire Leasing Corporation

YKAPS

# KAPS

**SECOND QUARTER REPORT  
SEPTEMBER 30, 1977**

## MESSAGE FROM THE PRESIDENT

The results of the Company's operations for the six months ended September 30, 1977, compared with the similar period of 1976, are set out on the following pages of this report.

During the six-month period the Company's transport operations in Alaska were profitable. The Company's Canadian transport division operated at a small loss. Both transport operations were adversely affected by low vehicle utilization and heavy maintenance and repair expenditures during the month of September 1977. The balance of the Company's operating loss for the period was accounted for by its manufacturing subsidiary and by administration and interest charges.

It is anticipated that activities in the Company's Canadian trucking operations will increase during the coming months and, as a result of this anticipated activity and the disappointing performance of the Company's manufacturing subsidiary, the Company will attempt to concentrate its resources on the transport side of its operations.

The Company has arranged standby commitments in connection with its current issue of \$1,900,000 10% convertible income debentures which, together with subscriptions received to date from shareholders and employees, will assure that the full amount of this issue is subscribed for.

November 25, 1977  
Edmonton, Alberta

P. J. A. BYRNE,  
President.

**KAPS TRANSPORT LTD.**  
and Subsidiary Companies

**CONSOLIDATED STATEMENT OF INCOME**

**Six Months Ended September 30, 1977**

(with restated figures for the six months ended September 30, 1976 for comparison)  
(Unaudited)

	<b>1977</b>	<b>1976</b>
REVENUE		
Transportation	\$8,747,000	\$6,033,000
Manufacturing	1,837,000	774,000
Other	<u>\$10,584,000</u>	<u>1,510,000</u>
DIRECT COSTS	9,798,000	7,728,000
GROSS OPERATING INCOME	786,000	589,000
ADMINISTRATION EXPENSES	1,097,000	1,117,000
INTEREST ON LONG TERM DEBT	237,000	652,000
	<u>1,334,000</u>	<u>1,769,000</u>
INCOME (LOSS) BEFORE TAXES AND EXTRA-ORDINARY ITEMS	<u>(548,000)</u>	<u>(1,180,000)</u>
INCOME TAXES		
Current	346,000	
Deferred (reduction)	(210,000)	225,000
	<u>136,000</u>	<u>225,000</u>
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	<u>(684,000)</u>	<u>(1,405,000)</u>
EXTRAORDINARY ITEMS		
Income Tax Reduction		
Resulting from Recognition of Additional Losses		
Carried Forward	346,000	169,000
Net Income (Loss) on Sale of Assets and Business of the Marine Division		(181,000)
NET INCOME (LOSS) FOR THE PERIOD	<u>\$ (338,000)</u>	<u>\$ (1,417,000)</u>
INCOME (LOSS) PER SHARE		
Based on 2,563,265 shares outstanding		
Income (Loss) Before Extraordinary Items	<u>(26.7)c</u>	<u>(54.8)c</u>
Net Income (Loss) for the Period	<u>(13.2)c</u>	<u>(55.3)c</u>
DEPRECIATION INCLUDED IN DIRECT COSTS	<u>\$ 854,000</u>	<u>\$ 1,067,000</u>

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**KAPS TRANSPORT LTD.**  
and Subsidiary Companies

## **CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

**Six Months Ended September 30, 1977**

(with comparative figures for the six months ended September 30, 1976)  
(Unaudited)

	<b>1977</b>	<b>1976</b>
<b>WORKING CAPITAL DERIVED FROM:</b>		
Extraordinary credit on recovery of current income taxes of subsidiary	\$ 346,000	
Proceeds from sale of fixed assets, net of additions		\$6,574,000
Decrease in investment in joint ventures		508,000
Decrease in deferred charges		7,000
	<hr/> \$ 346,000	<hr/> \$7,089,000
<b>WORKING CAPITAL APPLIED TO:</b>		
Operations	73,000	136,000
Reduction of long-term debt	209,000	7,861,000
Purchases of fixed assets, net of proceeds on sales	421,000	
Deferred finance charges	5,000	
Costs of disposal of discontinued divisions		70,000
	<hr/> 708,000	<hr/> 8,067,000
<b>INCREASE IN WORKING CAPITAL DEFICIENCY</b>	<b>362,000</b>	<b>978,000</b>
<b>WORKING CAPITAL DEFICIENCY AT BEGINNING OF THE SIX MONTH PERIOD</b>	<b>2,435,000</b>	<b>2,060,000</b>
<b>WORKING CAPITAL DEFICIENCY AT THE END OF THE SIX MONTH PERIOD</b>	<b>\$2,797,000</b>	<b>\$3,038,000</b>
<b>OPERATIONS</b>		
Loss before extraordinary items	\$ 684,000	\$1,405,000
Items not involving working capital		
Depreciation and amortization	(854,000)	(1,067,000)
Deferred income taxes	210,000	(225,000)
Loss on disposal of fixed assets	33,000	23,000
<b>WORKING CAPITAL APPLIED TO OPERATIONS</b>	<b>\$ 73,000</b>	<b>\$ 136,000</b>